

## Textanfang

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# The Baltic Sea Region in the European Century

## Four Reflections

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It is rather obvious that – since many years – a very large number of initiatives have been taken by both public and private actors to promote the development of The Baltic region and to accelerate economic and political integration around the Baltic Sea. There are large actors like the EU, the EBRD, the EIB, the World Bank, individual governments and their agencies but also big corporations, banks etc. At the same time several hundreds of smaller players, voluntary organisations, schools and universities, small companies etc. are also active in this field.

One of the conclusions I have often drawn is that there is a lack of total overview over what is really happening. There is so far no single databank where it is possible to check what is happening. I believe there is a clear risk of overlapping effects, of double work, and thus a lack of overriding efficiency in our collective efforts to bring the Baltic region to the top. Maybe this could be something for the “*Baltic Development Forum*” to think about.

My second reflection would be to point to the efforts made by many actors, including the “Baltic Sea Business Summit” – a group of leading business executives from the whole region – to focus on the basic legal and administrative architecture in the former communist ruled nations of the Baltic.

No single factor has been of such general importance as the establishment of a modernised legal structure in the individual nations that make up the Baltic states. Anyone familiar with the Russian style of legislation will know that it has but a few areas with a similarity to western laws. This particularly pertains to matters dealing with the protection of private ownership vis-à-vis state interests. There are many other areas where these two legal systems are very different – and will so remain for some time to come.

Of course the process of EU-integration will gradually lead to the incorporation and practical application of modern laws and regulations particularly in the economic field. However, this is a long and tedious process that requires the participation and education of a very large number of people. In my opinion it is only when these practical and basic fundamentals are in the place that we will see a really strong and lasting economic development in the whole region – and this will of course take time. I am perfectly aware of the fact that we already today can witness a number of very encouraging economic developments like foreign trade growth, foreign direct investments, increasing GDP-figures and the like. But believe me, it is only when for instance private ownership – whether foreign or national – of land and capital is solidly entrenched which means that it is treated by courts and administrations as well as by private entities as a fundamental and

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totally normal feature of daily economic life, that we will witness real and solid development. Only when corporations –particularly foreign ones – feel safe enough to invest in a country do we see, time and again, that positive economic developments start to take place.

My third reflection has to do with the issue of capital resources, one of the basic requirements for any economic development. In fact one of the problems of the new market economies in our Baltic region – typical for the former planned economies – is the lack of domestic capital resources. The only way out of this is now to attract foreign capital. Either in the form of loans which increased debt and thus vulnerability – or in the form of equity. The latter is of course the preferred way for the moment but one can naturally ask the question how long emerging nations are prepared to see their main industrial or service assets owned by foreigners. It seems to me rather obvious that one of the main priorities of the former planned economies must be to increase substantially domestically generated capital resources. This implies in turn the rapid development of a modern financial industry capable of handling the very large sums of savings we are talking about. Here again I sense a certain lack of focus and urgency among those who want to help in the development of the Baltic region. And let us not forget that an increase of domestic capital means also a long-term generation of balance of payments surpluses, in other words substantial surpluses of exports.

Finally, overriding everything else is the matter of political stability in the region. What all these nations need is national unity – over an extended period of time – and to be left in peace while they repair and reconstitute their respective basic legal, economic and political structures.

*Abschlußansprache auf dem Baltic Development Forum in Kopenhagen am 18.05.99*